

Message Text

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DRAFTED BY EA/PRCM:PGSMITH:EBS

APPROVED BY EA/PRCM - OVARMSTRONG

EA/ROC - BLEVIN (DRAFT)

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C O N F I D E N T I A L STATE 030974

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, EEWT, PLOS, CH, TW, JA, US

SUBJECT: SUPERIOR OIL PLANS TO DRILL FOR OIL IN DISPUTED

REF: STATE 282284, 1974

1. OFFICIALS OF SUPERIOR OIL COMPANY VISITED DEPARTMENT
FEBRUARY 6 FOR DISCUSSION WITH EA/PRCM AND EA/ROC OF THE
FIRM'S DRILLING PLANS (REFTEL) AND LIKELY PRC REACTION
THERETO.

2. STANLEY LUBMAN AND JOSEPH REED, EXECUTIVE VP OF
SUPERIOR, ASKED DEPTOFFS HOW PRC WOULD REACT TO: A) LETTER
FROM SUPERIOR ANNOUNCING INTENTION TO DRILL IN WATERS
DISPUTED BY PRC AND ROC (CLINTON CONCESSION IN ROC BLOCK
4), OFFERING TO SHARE WITH THE PRC ANY INFORMATION
DEVELOPED AS A RESULT; AND B) DISCOVERY OF COMMERCIAL-
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EXPLOITABLE OIL AS A RESULT OF SUCH DRILLING. LUBMAN ADDED

THAT HE RECENTLY SOUGHT LOW-LEVEL PRCLO OFFICER'S REACTION TO SUPERIOR'S PLANS, WITH INCONCLUSIVE RESULT. THE OFFICIAL SEEMED UNABLE OR UNWILLING TO COMMENT AUTHORITATIVELY ON SUPERIOR'S PROPOSAL; INSTEAD HE ASKED THAT SUPERIOR OUTLINE ITS PLANS IN A LETTER TO PRCLO, AFTER WHICH AN APPOINTMENT COULD PERHAPS BE ARRANGED.

3. ARMSTRONG OUTLINED USG POSITION ON PETROLEUM EXPLORATION BY US FIRMS IN DISPUTED WATERS OF NORTH ASIAN CONTINENTAL SHELF WHICH IS UNCHANGED AND WELL-KNOWN TO ALL ADDRESSEES. HE STRESSED INTENSIFICATION OF PRC INTEREST IN OFFSHORE RESOURCES, AS SIGNALLED BY PUBLIC STATEMENTS AND BY INVESTMENTS IN EQUIPMENT FOR USE IN OFFSHORE DRILLING. HE ESTIMATED THAT PRC WOULD REACT TO SUPERIOR'S DRILLING AT THE PROPOSED SITE, WHETHER OR NOT THERE WAS ANY PRIOR NOTIFICATION BY THE FIRM. HE ADDED THAT THE PRC WOULD ALMOST SURELY REJECT ANY LETTER FROM SUPERIOR, AND THAT IF SUPERIOR PROCEEDED WITH DRILLING AFTER RECEIVING A SPECIFIC WARNING NOT TO DO SO, PEKING WOULD FEEL EVEN MORE BOUND TO REACT STRONGLY. WHILE INITIAL REACTION WOULD PROBABLY BE SHARPLY-WORDED PUBLIC AND/OR PRIVATE PROTEST, ARMSTRONG SAID HE COULD NOT RULE OUT PRC USE OF FORCE AGAINST DRILL-SHIP.

4. REED ACKNOWLEDGED BASIS FOR DEPT'S CONCERN, BUT EXPLAINED THAT SUPERIOR WANTS TO ESTABLISH A FOOTHOLD ON THE NORTH ASIAN SHELF AND BELIEVES IT CAN DO SO ONLY VIA DRILLING IN ROC CONCESSION.

5. LEVIN AND ARMSTRONG BOTH ARGUED THAT SUPERIOR WOULD BE UNDERTAKING A NO-WIN PROPOSITION. IF THE FIRM GOES AHEAD WITH DRILLING PLANS, WHETHER PRC NOTIFIED OR NOT, MOST LIKELY RESPONSE WILL BE BLACKLISTING OF SUPERIOR IN PEKING. IF THE FIRM DISCOVERS OIL, IT IS EVEN LESS LIKELY THAT IT WOULD, IN THE END, ENJOY ANY PROFIT FOR ITS EFFORTS, BECAUSE PRC POSITION IS SURE TO HARDEN FURTHER.

6. REED ALSO SUGGESTED THAT PERHAPS ROC'S CHINA PETROLEUM CORPORATION (CPC) COULD DRILL THE TEST WELL WITH PARTIAL FINANCIAL BACKING FROM SUPERIOR; IN CONFIDENTIAL

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THIS WAY, HE SAID, SUPERIOR COULD TEST BOTH THE GEOLOGICAL STRUCTURE AND THE PRC'S REACTION WITHOUT ENDANGERING ITS BASIC INTEREST IN EXPLORATION IN NORTH ASIAN WATERS. LEVIN RESPONDED THAT HE CONSIDERED IT EXTREMELY UNLIKELY THAT ROC WOULD RISK CONFRONTATION WITH THE PRC ON BEHALF OF SUPERIOR.

7. THE DISCUSSION CLOSED WITH SUPERIOR OFFICIALS INDI-

CATING THAT THEY WOULD PROBABLY AT LEAST WRITE TO PRCLO,
OUTLINING THEIR-PLANS IN ORDER TO TEST THE PRC'S REACTION.
ARMSTRONG POINTED OUT THAT THE VEHEMENCE OF THEPRC
REACTION TO SUCH A LETTER WOULD DEPEND
GREATLY ON PHRASING. LUBMAN OBSERVED THAT SUPERIOR
SHOULD THEN WRITE IN TERMS SUGGESTING THAT THE COMPANY
WOULD ABANDON ITS DRILLING PLANS IF THE PRC OBJECTED.

IT MAY BE INDICATIVE OF SUPERIOR'S THINKING THAT REED
OFFERED NO OBJECTION TO THIS PROPOSITION.

8. COMMENT: WE CANNOT JUDGE, OF COURSE, TO WHAT EXTENT
THE SEEMING SHIFT IN SUPERIOR'S POSITION WAS JUST REED
SAYING WHAT HE THOUGHT DEPTOFFS WANTED TO HEAR. AT WORST,
WE BELIEVE SUPERIOR OFFICIALS LEFT WITH A CLEARER UNDER-
STANDING OF USG POLICY AND CONCERNS.

9. SENSITIVE COMMERCIAL INFORMATION. INGERSOLL

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